

LEGAL SERVICES CORPORATION  
BOARD OF DIRECTORS

TELEPHONIC MEETING OF THE  
AUDIT COMMITTEE

OPEN SESSION

Tuesday, July 2, 2013

11:05 a.m.

Legal Services Corporation  
3333 K Street, N.W.  
Washington, D.C. 20007

COMMITTEE MEMBERS PRESENT:

Victor B. Maddox, Chairperson  
Harry J.F. Korrell, III  
Gloria Valencia-Weber  
David Hoffman (Non-Director Member)  
Paul L. Snyder (Non-Director Member)

OTHER BOARD MEMBERS PRESENT:

Sharon L. Browne  
Julie A. Reiskin

## STAFF AND PUBLIC PRESENT IN THE CORPORATION'S OFFICES:

James J. Sandman, President

Wendy Rhein, Chief Development Officer

Rebecca Fertig, Special Assistant to the President

Ronald S. Flagg, Vice President for Legal Affairs,  
General Counsel, and Corporate Secretary

Katherine Ward, Executive Assistant, Office of Legal  
Affairs

David L. Richardson, Comptroller and Treasurer,  
Office of Financial and Administrative Services

Jeffrey E. Schanz, Inspector General

Laurie Tarantowicz, Assistant Inspector General and  
Legal Counsel, Office of the Inspector General

Ronald "Dutch" Merryman, Assistant Inspector General  
for Audit, Office of the Inspector General

Thomas Coogan, Assistant Inspector General for  
Investigations, Office of the Inspector General

David Maddox, Assistant Inspector General for  
Management and Evaluation, Office of the  
Inspector General

Daniel Sheahan, Program Evaluation Analyst, Office of  
the Inspector General

Magali Khalkho, Resource Management Specialist,  
Office of the Inspector General

Lora M. Rath, Deputy Director, Office of Compliance  
and Enforcement

Herbert S. Garten, Non-Director Member, Institutional  
Advancement Committee

## C O N T E N T S

OPEN SESSION	PAGE
1. Approval of agenda	4
2. Approval of the minutes of the Committee's April 15, 2013 meeting	4
3. Discussion regarding risk assessment by Management and the Office of Inspector General	5
<p style="padding-left: 40px;">James Sandman, President  Ronald Flagg, Vice President of Legal  Affairs and General Counsel  David Richardson, Treasurer/Comptroller  Jeffrey Schanz, Inspector General</p>	
4. Discussion of procedures relating to OIG investigation and audit reports that result in followup work by the Office of Compliance and Enforcement	30
<p style="padding-left: 40px;">Jeffrey Schanz, Inspector General  Lora Rath, Director, Office of  Compliance and Enforcement</p>	
5. Public comment	59
6. Consider and act on other business	59
7. Consider and act on adjournment of meeting	59

Motions: 4, 5, 59

## 1 P R O C E E D I N G S

2 (11:05 a.m.)

3 CHAIRMAN MADDOX: Let's get started. It  
4 sounds like we have a quorum; in fact, we have 100  
5 percent attendance.

6 I'll call to order the meeting of the Audit  
7 Committee of the Legal Services Corporation. And the  
8 first order of business would be to approve the agenda.  
9 Is there a motion?

## 10 M O T I O N

11 PROFESSOR VALENCIA-WEBER: So moved. This is  
12 Gloria.

13 CHAIRMAN MADDOX: Second?

14 MR. HOFFMAN: Second.

15 CHAIRMAN MADDOX: All in favor?

16 (A chorus of ayes.)

17 CHAIRMAN MADDOX: Hearing no opposition, the  
18 motion is approved. The agenda is approved.

19 The second item on our agenda is approval of  
20 the minutes of our meeting of April 15, 2013. I didn't  
21 see any reason to make any corrections. Is there a  
22 motion?

1 M O T I O N

2 PROFESSOR VALENCIA-WEBER: I move it. This is  
3 Gloria.

4 CHAIRMAN MADDOX: Thank you, Gloria. Second?

5 MR. SNYDER: Second. Paul Snyder.

6 CHAIRMAN MADDOX: All in favor?

7 (A chorus of ayes.)

8 CHAIRMAN MADDOX: And the motion is approved,  
9 as are the minutes of the April 15, 2013 meeting.

10 That takes us to our first substantive item,  
11 No. 3, the discussion regarding risk assessment by  
12 Management and the Office of the Inspector General.  
13 This item follows on the discussion that we had toward  
14 the end of our session on April 15, where we weren't  
15 able to give the topic adequate time. And Paul Snyder  
16 graciously agreed to have us postpone that, and so  
17 that's what we're doing here today.

18 We have Jim Sandman, the President of the  
19 Corporation, Ronald Flagg, the Vice President for Legal  
20 Affairs, David Richardson, the Treasurer/ Comptroller,  
21 and Jeffrey Schanz, the Inspector General.

22 I'd first like to welcome Ron Flagg, who is

1 LSC's new Vice President of Legal Affairs, and say,  
2 Ron, we're glad to have you.

3 MR. FLAGG: Thanks very much, Vic. I look  
4 forward to meeting you in person in Denver and working  
5 with you in the meantime.

6 CHAIRMAN MADDOX: Sounds good.

7 So with that, I will turn it over to our panel  
8 and ask Board members who may have any comments in  
9 advance of that to feel free to chime in. In fact,  
10 Paul, you may want to make a few comments before we  
11 turn it over to the panel.

12 MR. SNYDER: Okay, Vic. Be happy to. As Vic  
13 mentioned, at the last meeting we started a little bit  
14 of the discussion to say as agendas for future  
15 meetings, we should have discussions around the risk  
16 management process, which obviously is one of the key  
17 responsibilities we have under the charter.

18 So we postponed any further discussion on that  
19 till today. And subsequent to the meeting, David  
20 Richardson came up. We had a discussion, and discussed  
21 just briefly the process LSC had started, and I should  
22 say maybe even refining, around risk management, and

1 that that probably could provide us a very solid  
2 starting point for our discussions. Maybe the term is  
3 foundation for our discussion.

4           So we talked a little bit about that. Then I  
5 had a subsequent followup with Ron and Jim and Jeff and  
6 David, I would say just a couple weeks ago now, and we  
7 talked a little bit more along what they are doing in  
8 the risk management process, and a discussion of how it  
9 may be very beneficial for them to share with our  
10 Committee where they stand in that process and the  
11 efforts they're undertaking.

12           Then from that, we could potentially build  
13 future agendas around reviewing certain risk, if that's  
14 the pleasure of the Committee and the Chair. And it  
15 may provide for a very good basis for our discussion.

16           So that's kind of what happened subsequent to  
17 the last meeting. And I appreciate David and Jim and  
18 Jeff and Ron and all the work they've done on this.  
19 And so I'll get out of their way and let them carry on  
20 with their discussion.

21           CHAIRMAN MADDOX: Thank you, Paul.

22           Jim, I'll turn it over to you.

1           PRESIDENT SANDMAN: Thanks, Vic. LSC  
2 Management developed a risk management plan in 2009,  
3 and we've been working over the past months on updating  
4 that plan, revising it, and trying to identify  
5 particular risks that we think it would be important  
6 for us to report on regularly at meetings of the Audit  
7 Committee.

8           One of the pieces of that risk management plan  
9 was a risk matrix. We circulated that to the  
10 Committee, and we've highlighted those particular risks  
11 that we suggest be agenda reporting items for upcoming  
12 meetings of the Audit Committee.

13           Our criteria for identifying the particular  
14 risks we highlighted were two. First, we focused on  
15 risks where either the probability of occurrence or the  
16 severity of consequence is high; and second, we engaged  
17 in a balancing process, a judgment, of weighing  
18 probability and severity to identify those that we  
19 thought were particularly significant.

20           What we would propose to do going forward  
21 would be to take these one by one and report to the  
22 Committee on what LSC Management is doing to control



1 those risks.

2 CHAIRMAN MADDUX: Jim, when you say one by  
3 one, are you suggesting that that would be something  
4 that would be addressed on an ongoing basis at  
5 quarterly meetings on some sort of scheduled process,  
6 or would it be something that came up on an ad hoc  
7 basis?

8 PRESIDENT SANDMAN: I propose to do it  
9 regularly. I think this is consistent with the  
10 recommendations that we got from GAO about reporting to  
11 the Audit Committee regularly on operational matters  
12 and internal controls. Risk management, I think, falls  
13 squarely within that. So I think it should be a  
14 standing agenda item.

15 PROFESSOR VALENCIA-WEBER: Jim, this is  
16 Gloria. Given that we would go through these, would we  
17 go through them in the order they're organized, or by  
18 the priority? For instance, I notice that of the  
19 different categories, the funding one was one where you  
20 had the highest probability and the highest severity,  
21 which would seem to me to mean that's the most  
22 important now.

1           Then the other categories, I know, had  
2 different levels of probability and severity. And you  
3 had redlined some. So I was trying to figure out, is  
4 it by degree of need or immediate concern?

5           PRESIDENT SANDMAN: These are listed here  
6 simply in the order in which they appeared in the  
7 matrix that Management developed in 2009. So they're  
8 not listed in order of priority here.

9           I would recommend that the Committee, in the  
10 process of setting its agendas, identify the order in  
11 which we should take these up. But we hadn't sought to  
12 prioritize them for order of reporting to the  
13 Committee.

14           MR. SNYDER: Jim, just one maybe suggestion or  
15 observation, going through this with a public company  
16 I'm on the board of. One of the things we did was get  
17 the full board looking at the risk as well to say, is  
18 everybody on the board in agreement that these are a  
19 good inventory of the risk facing the organization, so  
20 you get the board buy-in.

21           Then secondly, what we did was go through each  
22 of the risks, and I'll take maybe adequacy of risk of

1 our basic field funding, is look at each of those key  
2 risks and what committee do they best line up with.

3           So maybe funding lines up more with the  
4 finance committee. Just a suggestion. Others, how do  
5 they line up? And then audit committee, for lack of a  
6 better term, picked everything that was left over,  
7 saying that the audit committee usually is the one that  
8 will drive the overall risk process.

9           That way, all the board got involved in having  
10 a better understanding of the risk process. I'm not  
11 saying that's the only way to do it, but it seemed to  
12 be a fairly effective way to get the full board engaged  
13 in the process. So just a suggestion for you to think  
14 about.

15           MS. REISKIN: This is Julie Reiskin. I really  
16 like that idea a lot.

17           MR. SNYDER: So again, not one size fits all  
18 organizations, and you know the organization better  
19 than I do. So it just is a suggestion to think about  
20 and see how it might work for LSC.

21           CHAIRMAN MADDOX: Paul, it's Vic Maddox here,  
22 and Jim, I think that's a good suggestion. I think I

1 agree with Julie.

2 I have a couple of questions about the risk  
3 matrix, Jim or Ron or whomever. For instance, I think  
4 I agree with Paul that I'm not sure that the Audit  
5 Committee is particularly well-suited to evaluate the  
6 extent to which the risks identified under the funding  
7 categories are being properly ameliorated, if that's  
8 what we're supposed to do, or if the potential for some  
9 future development that would be adverse in the funding  
10 category is really well-suited for our jurisdiction.

11 So I think I agree with Paul. I also wonder  
12 if we as a Committee would need to make a  
13 recommendation to the Board or present some resolution  
14 to the Board that the Board adopt whatever  
15 prioritization of risks and allocation to the various  
16 committees that we think appropriate because I do think  
17 it's an overall Board function, as I gather probably,  
18 that Julie, you do.

19 I think John Levi would have been on the call.

20 He told me that he had a client come up at the last  
21 minute so he couldn't join us, but I'd like to get his  
22 thoughts on that.

1           Jim, one of the other thoughts I have on the  
2 funding issue is, for instance, under Strategies, you  
3 talk about ways that LSC would attempt to limit the  
4 risk of inadequate funding -- public education,  
5 strengthened congressional relationships, developing  
6 stronger data to support funding requests.

7           So I think all of those things are going on.  
8 I think they're all, to one degree or another, part of  
9 our recently adopted strategic plan.

10           One of the things that I personally believe is  
11 that perhaps one of the greatest risks to basic field  
12 funding is the possible violation of restrictions  
13 imposed by Congress or the regulations established by  
14 LSC concerning political activities, lobbying  
15 activities, and the like, or the possibility of  
16 headline abuses by grantees like the Baltimore fiasco  
17 that went on for ten years, the Baton Rouge situation  
18 where we were forced to close down a grantee, and then  
19 a variety of others that perhaps -- the AppalReD  
20 situation in Eastern Kentucky was pretty significant.

21           I think that especially in light of the news  
22 regarding the Internal Revenue Service, the abuses in

1 some of the other federal agencies, that those kinds of  
2 developments by our grantees or the engaging in  
3 political activities by our grantees has at least as  
4 great a risk of jeopardizing funding as anything else  
5 that we've identified.

6 But I don't really see that on the matrix. I  
7 wonder if that's an intentional --

8 MS. REISKIN: This is Julie. I was thinking  
9 public relations in general because it could be an  
10 actual violation or it could be some allegation that  
11 isn't true but it still creates a crisis for us.

12 CHAIRMAN MADDOX: I agree with that.

13 MR. HOFFMAN: Vic, this is David. I think  
14 what you're describing is on page 6 of the matrix. I  
15 think, and Jim and others will correct me if I'm wrong,  
16 but under the category of Grantee Operations, one of  
17 the items that's listed there is restriction  
18 violations.

19 CHAIRMAN MADDOX: Yes.

20 MR. HOFFMAN: And I think the other thing  
21 you're talking about, which I'm sure we would all agree  
22 with, about abuse of funds or criminal or other

1 misconduct relating to abuse of funds I think is also  
2 under that category.

3 MR. SNYDER: Right.

4 MR. FLAGG: This is Ron Flagg. There's  
5 clearly an interrelationship among these various risks.  
6 And the risks David just pointed to dovetail and are  
7 directly related to the funding risk, as Vic pointed  
8 out. And how you array these either separately or  
9 together is obviously somewhat arbitrary. But  
10 certainly that risk that Vic described was meant to be  
11 captured in the Grantee Operations boxes on page 6 and  
12 7.

13 CHAIRMAN MADDOX: Yes. Ron or Jim or whoever,  
14 I'm wondering why, now that we're on -- why, for  
15 instance, the major misuse of grant funds, failure of  
16 internal controls, is rated as a low probability. For  
17 a high profile example -- is somebody crinkling paper  
18 next to their microphone?

19 MR. SNYDER: Please stop.

20 CHAIRMAN MADDOX: All right. Thank you.

21 MS. REISKIN: Thank you.

22 MR. SCHANZ: I think it's Lay's Potato Chip

1 commercial that somehow got interspersed with our  
2 conversation, Vic.

3 CHAIRMAN MADDOX: The dangers of the internet  
4 era, I guess.

5 So anyway, I was just wondering. It seems to  
6 me that if it were me, I would probably have considered  
7 those risks, misuse of grant funds, failure of internal  
8 controls, as a higher -- probably a moderate  
9 probability. I'm kind of wondering what the thinking  
10 is that led to us concluding those are low  
11 probabilities.

12 PRESIDENT SANDMAN: This is Jim, Vic. I think  
13 that these ratings were simply lifted from the risk  
14 management plan that Management did back in 2009. And  
15 I agree that they should be reassessed in light of  
16 developments since then.

17 There are two different ways to look at  
18 it -- number of grantees that have problems like this;  
19 in a way, one huge problem with a single grantee can be  
20 a very big deal. So my guess is that the low  
21 probability reflected the judgment of prior Management  
22 that that was not likely to come up at a lot of



1 grantees.

2           But I take your point. We have had some high  
3 profile and very troubling incidents since then that  
4 should cause us to reassess what the ranking of  
5 probability is for those.

6           PROFESSOR VALENCIA-WEBER: This is Gloria.

7           MR. HOFFMAN: Vic, this is David -- go ahead,  
8 Gloria.

9           PROFESSOR VALENCIA-WEBER: I'd like to build  
10 on that conversation in that we were talking about  
11 restriction violations. I think, since this is a  
12 recurring concern and will be, could we get some idea  
13 of a more recent history of what have been real  
14 restriction violations among our grantees, as well as  
15 what might be high visibility accounts that, even if  
16 not ultimately found to be violations, nonetheless the  
17 Corporation has to respond to because of publicity?  
18 That way I feel we have a better handle on  
19 understanding the problem.

20           CHAIRMAN MADDOX: Yes. I think that's a good  
21 idea, Gloria.

22           MS. REISKIN: This is Julie. I guess also how

1 big of a deal -- the ones that weren't real, how big of  
2 a deal just a public relations disaster was.

3 And I have a question. I don't know if this  
4 is the right time, but under the whole Grantee  
5 Operations on page 6, and it talks about failure of  
6 leadership, lack of board oversight, all of that,  
7 you're talking about the grantee. Right? Their board,  
8 their leadership? Or are you talking about LSC?

9 PRESIDENT SANDMAN: No. Julie, that's  
10 grantees. It's all under the heading of Grantee  
11 Operations.

12 MS. REISKIN: Okay. I just wanted to be sure.  
13 I thought that's what it was.

14 CHAIRMAN MADDOX: David?

15 MR. HOFFMAN: Yes, great. Thanks, Vic.  
16 Before I start, let me just -- I also want to welcome  
17 Ron to the LSC community. Jim and others, fantastic  
18 move in recruiting Ron, and Ron, I think it's great  
19 that you're part of LSC. And it will be a great  
20 advancement for LSC to have you as one of its leaders.  
21 So welcome.

22 Also, I want to say that I think this risk

1 matrix idea and the ongoing implementation of this is a  
2 great idea and a great thing. Thanks, Paul, for the  
3 leadership, and to Jim and Jeff and David and Ron for  
4 helping to put together, and the time. And I have some  
5 specific comments, but I think, in general, this is a  
6 very good thing.

7 My specific comments, which are consistent  
8 with the things that have been said already, are that I  
9 think that while this is very good, especially given  
10 how relatively infrequently the Audit Committee will be  
11 meeting, which is appropriate, I think there's an  
12 important stress on efficiency in terms of our focusing  
13 on the right risks on this matrix during our meetings.

14 I didn't count them, but there are probably  
15 about 15 to 20 listed here. And I think it would be  
16 inefficient to have Management thinking that you should  
17 be going one by one through the 15 or 20.

18 Therefore, number one, I think that Paul's  
19 suggestion of having these formally split up between  
20 committees makes a lot of sense. I echo the comments  
21 that -- I think Management picked eight that were  
22 highlighted in red, but No. 2 and 3 that it

1 highlighted, Basic Field Funding and Adequacy of MGO  
2 funding, I agree are probably not risks that should be  
3 primarily addressed to the Audit Committee.

4 In contrast, I think that the seventh and  
5 eighth ones that you highlighted, Grantee Oversight by  
6 LSC and IPAs and Grantee Operations, are arguably the  
7 two key ones that we should be addressing -- not the  
8 only ones, but I think that if those received  
9 one-fifteenth of our attention, that we would be not  
10 doing it adequately. And they probably should be  
11 getting half to two-thirds of our attention.

12 So I think that Management can tweak this a  
13 little bit here to fine-tune what we're going to be  
14 presented by categorizing these risks, both in terms of  
15 what Committee they go to and I would categorize them  
16 in sort of an A, B, and C mode so that if you have A  
17 risks that are going to the Audit Committee -- and  
18 there's not going to be a large number of those -- we  
19 would expect to really hear about those risks every  
20 meeting; whereas other risks that might be B or C risks  
21 going to the Audit Committee, we might not expect to  
22 hear those except maybe once a year unless there's

1 something specific to report.

2 I would also suggest that there be a column  
3 added. I think this matrix is going to be a document  
4 we'll be referring to. Your last column is Date of  
5 Next Review. I would add a column for Date of Last  
6 Review so that we can see when we last heard from you  
7 on this, and that would of course serve as a tickler if  
8 you haven't said anything to us about an important risk  
9 in a year.

10 Finally, in terms of the ranking of  
11 probability and severity, I agree with Vic. I mean, I  
12 agree with Vic specifically that I would today, unless  
13 someone disagrees, move the probability of major misuse  
14 of grant funds and failure of internal controls to  
15 moderate.

16 I would say that in part because of the recent  
17 experience, even though I agree with Jim it's a small  
18 number, but also because I think part of our process  
19 here is to get more educated and get a comfort level  
20 about the kind of IG and OCE, et cetera, controls that  
21 are in place.

22 What is our confidence level that this is not

1 going on elsewhere? I think that for some people in  
2 Management and the IG community, it may be high that  
3 it's not going on elsewhere. But I think that's part  
4 of our role as a Committee, in the next agenda item and  
5 in the future, to get a confidence level.

6           It may be that we together can reduce that  
7 probability to low simply by getting more educated.  
8 And so therefore I'm glad, Jim, that Management is  
9 going to do a reassessment of these, which I think is  
10 important in guiding what we're going to hear about.

11           So those are my general comments. But in  
12 general, I think it's a very, very positive procedure  
13 that's being followed.

14           PRESIDENT SANDMAN: David, it's Jim. In the  
15 course of reassessing, we'd obviously want to get the  
16 input of the Office of Inspector General and include  
17 their perspective on the frequency of problem in  
18 deciding what level of probability we should assign.

19           MR. SNYDER: Yes. Jim, this is Paul. I think  
20 that is absolutely key, and I think that's one of the  
21 benefits to come out of this process, is that  
22 Management, the Board, and the IG's Office are all in

1   synch in communicating where they see the key risk and  
2   where our focus should be.  So I think that's a really  
3   important process, part of the process, here.

4           CHAIRMAN MADDUX:  Jim, it's Vic here.  The  
5   matrix and the probabilities, were they developed  
6   without any input from OIG, from the Inspector General?

7           MR. SCHANZ:  In the original version of 2009,  
8   I was a newly minted IG.  And, if I may, the then-Board  
9   did not take this as seriously as the current Board is.  
10   So the input that the OIG had dated back to 2009.  We  
11   have not yet opined on the probability and severity of  
12   the document that's before you.

13          MR. SNYDER:  Jeff --

14          CHAIRMAN MADDUX:  So -- go ahead, Paul.

15          MR. SNYDER:  Sorry.  No, Jeff, I guess also it  
16   would be in both probability and severity, and also the  
17   inventory.  Do you agree that we're looking at -- you  
18   agree with the identification of the key risks that are  
19   there, and that we're not missing anything.

20                 I know, for example, the EDP, we talk about  
21   integrity of EDP.  I would say probably integrity,  
22   security.  But your department's insight also, are we

1 overlooking anything, would be really valuable to us, I  
2 think.

3 MR. SCHANZ: Okay. That we can do, with the  
4 recognition, Paul, and I think you know this, that  
5 internal controls and management is truly a function of  
6 Management.

7 MR. SNYDER: Oh, absolutely.

8 MR. SCHANZ: So in the IG advisory hat -- I'll  
9 put on an advisory hat, and we can do that. But we  
10 can't drive the train on this.

11 MR. HOFFMAN: But Jeff --

12 MR. SNYDER: No. I agree. We can wonder as  
13 if we're cutting through the crossing. Sorry, David.

14 MR. HOFFMAN: No, no, no. I'm sorry, Paul. I  
15 interrupted you.

16 MR. SNYDER: No, no. I was done. I should  
17 have stopped.

18 MR. HOFFMAN: Okay. Jeff, I appreciate that  
19 comment. But I think Paul's point, which I agree with,  
20 is while internal controls is Management's function to  
21 implement, the things that the IG does in conducting  
22 investigations, and conducting its audits, and



1 conducting its oversights of how grantees spend their  
2 money, and conducting its oversight of the IPAs, are  
3 critical.

4           You'll have insights into risks that  
5 Management simply won't have. And so it's critical for  
6 the overall internal controls of LSC that those  
7 insights that your office have be combined with  
8 Management in creating this matrix, both in terms of  
9 the identification of the risks and in prioritizing  
10 what different committees should be looking at, which  
11 one way to do that is the probability and severity.

12           So none of that is to say that it's ultimately  
13 IG's responsibility to take over Management's  
14 responsibility. It's just that we want to make sure  
15 that your insights are being combined with Management  
16 in creating this.

17           I don't hear you say anything inconsistent  
18 with that, and we all acknowledge and appreciate and  
19 are thrilled about the increased communication and  
20 coordination between Management and the IG.

21           So I think all of that is consistent with  
22 what's going on. But I do think that the sharing of

1 insights as the mix goes forward is critical.

2 PROFESSOR VALENCIA-WEBER: This is Gloria. I  
3 would agree, and add that the insight not only allows  
4 us to change what we designate as the probability or  
5 severity rating, but we also have to take into account  
6 that we have now on board a Vice President for Grants  
7 Management and Vice President for Legal Affairs. And  
8 what these people can see and add in in an overall  
9 review of the risk management can be quite helpful.

10 I regard what we have before us, in a way,  
11 sort of as a working draft that ultimately we should  
12 present to the whole Board so they can see the whole  
13 framework of risk management. I did not see a risk  
14 management document when I came on board, and I found  
15 this document really quite important, if for nothing  
16 else, just to give me a comprehensive view of the  
17 different pockets of activity we have to be watchful  
18 about.

19 Some will be more important than others, and  
20 some will be Audit Committee and some will not. But  
21 the comprehensive view is something that I think our  
22 whole Board needs.

1           MR. HOFFMAN: Jim, I don't think I've met Lynn  
2 before, but another appointment that I think looks like  
3 is and I'm sure has already been great for LSC.

4           Let me ask for Vic and Jim, do you anticipate  
5 Lynn playing a regular role in the briefings or  
6 presentations to the Audit Committee? Because it does  
7 seem like, just looking at the org chart and her  
8 background, that she would play a central and very  
9 effective role in being able to make sure that we're  
10 being effectively briefed on the right kind of risks.

11          PRESIDENT SANDMAN: I would, in conjunction  
12 with Lora Rath and Janet LaBella.

13          MR. HOFFMAN: Great. Okay.

14          CHAIRMAN MADDOX: Well, Jim, how then are we  
15 going to go forward with this matrix from Management's  
16 perspective? And what sort of schedule will we be on  
17 to see, perhaps, a reevaluation of the risk  
18 probabilities and some suggestion for the Committee on  
19 how we incorporate it into our ongoing meetings?

20          PRESIDENT SANDMAN: Well, I think we can  
21 reassess the probability and severity and come up with  
22 some recommendations both for priorities and for

1 possible allocation of reporting among different  
2 committees of the Board by the Denver meeting.

3 CHAIRMAN MADDOX: That would be great. That  
4 would be great.

5 Is there any other discussion from Committee  
6 members on this? If not, we can move on to our next  
7 item, I think. I'd like to try to keep the meeting to  
8 as close to an hour or so as possible.

9 MR. SNYDER: Vic, if I could just make one  
10 suggestion just for Jim to think about. And again,  
11 having gone through this a couple times with some  
12 public companies, one I'm on now, also management has  
13 developed a risk management committee, which would be  
14 your key people. Obviously, the smaller the group, the  
15 better, from an efficiency standpoint.

16 But they really try to ingrain this in the  
17 whole organization's culture so as decisions come up,  
18 they think about the risks that are associated with  
19 those decisions, and periodically review their matrix  
20 and look at things that are emerging.

21 So there's a risk management committee that  
22 reviews this document on an ongoing basis so that it

1 becomes a living document and not something we put on  
2 the shelf until the next time we want to look at it.

3 But just a thought, and if there's people you  
4 want to talk to, I could find some folks to give you a  
5 call if you're interested in doing that. But something  
6 as you evolve through this process that might be  
7 helpful.

8 PRESIDENT SANDMAN: That's a great idea.

9 CHAIRMAN MADDOX: Okay. Well, this has been a  
10 helpful discussion, I think. Paul, thank you for  
11 helping spearhead this, and I think it's going to be a  
12 valuable addition to the Committee's functions going  
13 forward.

14 MR. SNYDER: Well, again, all the credit goes  
15 to David and the team because they just made me aware  
16 about what they've done, and I think they're off to a  
17 great start. So my thanks to them.

18 MS. REISKIN: This is Julie Reiskin. I just  
19 have a question. I have some comments about this.  
20 Should I send those to you, or to David, or wait till  
21 Denver?

22 CHAIRMAN MADDOX: Well, feel free to send them

1 to me, Julie. We can address them as appropriate.

2 MS. REISKIN: Okay. All right.

3 CHAIRMAN MADDOX: If we want to put it on the  
4 agenda in Denver, we'll do that as well.

5 MS. REISKIN: Okay. Thanks.

6 CHAIRMAN MADDOX: Thank you for joining us  
7 today. I appreciate your input on this.

8 So in the interests of time, we're going to  
9 move to item No. 4, discussion of procedures relating  
10 to the OIG investigation and audit reports that result  
11 in the Office of Compliance and Enforcement followup  
12 reports. We have Jeffrey Schanz, the Inspector  
13 General, and Lora Rath, the Director of Compliance and  
14 Enforcement.

15 Let me just say that this item on our agenda  
16 follows on David Hoffman's suggestion very close to the  
17 end of our last meeting that perhaps we needed a more  
18 definitive and systemic approach to the way we address  
19 reports and recommendations and referrals from the OIG  
20 and OCE's followup on it.

21 So David, feel free to jump in with any  
22 preliminary comments you have. Otherwise, I'll turn it

1 over to our panel.

2 MR. HOFFMAN: Yes. I think that would be  
3 helpful in framing it, given the limited amount of time  
4 we have. Let me just make a few comments that frame  
5 what my perspective on this is.

6 First of all, going back to our risk matrix, I  
7 think this discussion is within the Grantee Oversight  
8 and the Grantee Operations categories.

9 As I've tried to understand, both from the  
10 time on the Fiscal Oversight Task Force and on the  
11 Audit Committee, what the IG's Office and OCE do and  
12 how they interact with each other in relation to  
13 grantee oversight.

14 I think I've got a list of -- there's a total  
15 of six things. And we're not going to talk about all  
16 of them, but I want to give you what my framework is  
17 because if I'm right, Lora and Jeff, I think that this  
18 framework might be helpful going forward in terms of  
19 explaining to the Committee what you're describing.

20 So, number one, in terms of specific looks at  
21 individual programs, we've got IG audits. Then we've  
22 got IPA audits. We also have OCE program reviews. And

1 we have investigations. And those things each have  
2 their own process and procedure, but they overlap  
3 because all four of those things may be examinations of  
4 an individual grantee.

5           Then there are a fifth and a sixth thing that  
6 I think are to the side, which the IG does, and I think  
7 about them as a more general type of control. One is  
8 the IG's quality control review of IPAs, which also  
9 intersects with, I think, the OCE but I'm not sure  
10 about that; we can put that for another day. And the  
11 sixth is the IG's regulatory vulnerability assessment  
12 program, which I don't know what that is but I'd like  
13 to hear about that some other day.

14           All of this, one general comment would be,  
15 we've just dealt with this very effective process of  
16 creating a risk matrix for the LSC. And one thing  
17 that's crossed my mind as I've been hearing these  
18 briefings over the last year or so is that the  
19 briefings feel very ad hoc to me.

20           They feel very intelligent, and I enjoy  
21 hearing the activities, but given the limited time this  
22 Committee has to deal with these issues, I'm looking



1 for something I think a little more, as Vic said,  
2 systemic that explains not only what we're discussing  
3 in terms of the type of IG or OCE activity but how it  
4 relates to other things involving that grantee.

5           Therefore, one of my bigger questions would  
6 be, is there a risk matrix for grantees? There's a  
7 large number of grantees that LSC deals with. I'm  
8 hoping that either in an informal or a formal way,  
9 there's some sort of centralized collection of  
10 information about that grantee, both from IG and OCE,  
11 et cetera, that allows LSC to determine whether this is  
12 a high risk, a medium risk, or a low risk grantee on  
13 these issues of potential abuses of funds or compliance  
14 violations.

15           I note that this is something that the GAO  
16 recommended both in 2007 and then in 2010, noting that  
17 it had not been implemented, which was an approach in  
18 terms of the selection of grantees for internal control  
19 and compliance reviews that's founded on risk-based  
20 criteria.

21           I think in terms of your briefing us in an  
22 efficient way going forward, if we're able to ask you,

1 well, is this a high risk, a medium risk, or a low risk  
2 grantee, I think that would be helpful to know. I, of  
3 course, understand the sensitivity of that designation,  
4 and so maybe there are other ways to label it. But I'm  
5 focused on the efficiency of your briefing of us and  
6 the efficiency of OCE's and IG's actions, and I just  
7 want to get educated about that.

8           So that's my overall preamble, and I give that  
9 now because I think that will guide my questioning of  
10 what Management and the IG are doing in the coming  
11 meetings. Because I think the end of this process  
12 should be some systemic, efficient way to be briefing  
13 the Audit Committee so that we can feel comfortable  
14 that the IG and OCE, et cetera, are doing a good job of  
15 efficiently keeping track of where the worst risks  
16 might be.

17           So let me just take one chunk of that, which  
18 would be when the IG is conducting an audit. It  
19 conducts an audit of a particular grantee. It finishes  
20 the audit. It has the grantee's comments. I presume  
21 that the IG -- I've read some of these; the IG is  
22 making some recommendations.

1           I think that gets sent then to OCE, who is in  
2 charge of the followup. And I'm interesting in  
3 hearing, both from the IG's Office and from the OCE,  
4 from that point forward how the process works; how the  
5 information flow goes in terms of what OCE does after  
6 that, how it communicates either with the IG's Office  
7 or with our Committee about what followup steps were  
8 taken or not, and especially if the IG makes  
9 recommendations and the OCE finds that the findings  
10 aren't valid or that no actions need to be taken, what  
11 the process is at that point with regard to the Audit  
12 Committee and the IG's Office.

13           So I'm happy to hear from both of you in  
14 whatever way you'd like.

15           MR. MERRYMAN: This is Dutch. I'm sorry I'm  
16 not well-prepared, but I'll answer that question as  
17 best I can. I didn't read that on the agenda.

18           But basically, what happens is the followup  
19 process for our reports is we maintain the followup and  
20 monitor the corrective action of the grantee to make  
21 sure that the action is done. The recommendations that  
22 we refer to Management would be those that either the

1 grantee disagrees with or it becomes such an issue of  
2 not getting a response, we need to involve Management  
3 in that process.

4 For the IPA reports, the findings in the IPA  
5 reports are forwarded to OCE for --

6 MR. HOFFMAN: Wait, wait. Dutch, I just want  
7 to stay with one for a moment. Let's just stay with  
8 the IG audits.

9 So what you're saying is that when an IG audit  
10 finds that there were some problems with a grantee's  
11 operations and says, here's the recommendation; you  
12 need to -- or directs the grantee to fix it, it is the  
13 IG's work to follow up on that and try to ensure that  
14 the grantee takes the recommended action. Is that  
15 correct?

16 MR. MERRYMAN: For the audits that we do,  
17 that's the initial thing that we do, is to maintain  
18 control over the recommendation and completion of  
19 management actions where there's agreement with  
20 management on taking action that was recommended.

21 MR. SCHANZ: Excuse me. But that follows the  
22 OMB A-50 process, where we give management X amount of

1 days. And while we're not a federal agency, we do use  
2 the A-50 followup process.

3 MR. HOFFMAN: In general?

4 MR. SCHANZ: Yes.

5 MR. HOFFMAN: Okay. So when we read your  
6 report, has that followup process of giving management  
7 a chance to correct things, has that process been  
8 completed, or that process is going to come after your  
9 report has been publicized?

10 MR. MERRYMAN: In the transmittal letter of  
11 the report, it indicates which recommendations are  
12 closed because management action has been completed,  
13 reported to us as completed; which recommendations we  
14 consider open; and which recommendations that we plan  
15 on referring to OCE for further action.

16 PRESIDENT SANDMAN: I think that your  
17 "management" here refers to grantee management.

18 MR. MERRYMAN: Grantee management. Grantee  
19 management action.

20 MR. HOFFMAN: So let's take the ones that are  
21 open, meaning they're not being referred -- so I guess  
22 to clarify that, are you referring anything to OCE in

1 that scenario?

2 MR. MERRYMAN: We are not if there's agreement  
3 by grantee management that they are going to take a  
4 corrective action and the corrective action will  
5 satisfy the recommendation and correct the situation  
6 identified.

7 MR. HOFFMAN: And those are the ones you're  
8 describing as open. Right? So they're open and you're  
9 going to continue to monitor the grantee to ensure that  
10 they finish the action?

11 MR. MERRYMAN: Correct.

12 MR. HOFFMAN: And if they don't, if you  
13 monitor it and they don't, do you then refer it to OCE?

14 MR. MERRYMAN: If we believe that we're at an  
15 impasse with them or it's been an excessively long time  
16 or the reasons for delays are not reasonable, we would  
17 forward it to OCE for followup action there.

18 MR. HOFFMAN: And as you say, if there is  
19 some --

20 MR. MERRYMAN: We have no authority to direct  
21 the grantee in any way, shape, or form to do anything.

22 MR. HOFFMAN: So it's really a monitoring

1 function, where you're trying to determine whether  
2 they're following your recommendation. And either if  
3 they disagree with your recommendation or if they don't  
4 implement, then you would refer to OCE?

5 MR. MERRYMAN: Correct. Or if what they gave  
6 us was not responsive.

7 MR. HOFFMAN: Right.

8 MR. MERRYMAN: If they answer they gave us was  
9 to say, yes, we're going to do it and this is what  
10 we're going to do, but it really is not going to fix  
11 the issue, we refer that also.

12 MR. HOFFMAN: So Lora, can you give us your  
13 perspective? How often does this come up that the IG  
14 does -- and by the way, Dutch, in the last 12 months,  
15 approximately how many audit reports has the IG's  
16 Office done of grantees?

17 MR. MERRYMAN: In the last 12 months? Eight  
18 to ten -- well, in progress or issued? I'd say --

19 MR. HOFFMAN: No. Actually issued.

20 MR. MERRYMAN: I don't remember the number,  
21 but it would be somewhere around seven to nine right  
22 now.

1           MR. HOFFMAN:   Okay.   So in the last year  
2 there's been seven to nine or so audit reports.

3           Lora, what's your perspective?   How often does  
4 this come up that something is referred to OCE by the  
5 IG's Office from the IG's own audit reports?

6           MS. RATH:   Well, let me say that sometimes the  
7 audit reports are referred to us basically for us to do  
8 the questioned cost process, to try and recoup money.  
9 So it might not have any recommendations, or the  
10 program may have finished the recommendations of the  
11 OIG.   So it's being referred to us merely to look into  
12 whether we can recoup any funds.

13           I think the number of findings that have been  
14 referred to us to follow up with the program us to see  
15 whether they're following a directive has been minimal  
16 over the last year.   I can think of one program off the  
17 top of my head.

18           MR. MERRYMAN:   Maybe one or two at the most.

19           MS. RATH:   Yes.   And in those instances,  
20 actually one of them we were going onsite within a week  
21 to a month after the OIG made the referral.   So it  
22 became part of our draft report and final report



1 process, and we're actually still working with the  
2 program. It was an interpretation issue of the  
3 accounting guide, so we're working with them to fix  
4 that and we're --

5 MR. HOFFMAN: Okay. So let me follow up on  
6 the questioned cost process because that's -- so  
7 explain that situation, where the IG does an audit  
8 report and finds some costs that are questionable. In  
9 that situation, does that always get referred to OCE  
10 for followup?

11 MS. RATH: Yes.

12 MR. HOFFMAN: And what do you do then?

13 MS. RATH: Okay. So then, first, I review it.  
14 I assign it to one of our program counsel, and  
15 typically then we go back to the OIG and ask if we can  
16 see their exhibits, try and talk to them, see what they  
17 did on site, how they reached their conclusions, have  
18 discussions.

19 We may contact the program informally to see  
20 if they have any other additional information. But  
21 basically, if the OIG has concluded that the program  
22 did something wrong and if we agree with it after

1 reviewing the report and the exhibits, then we're going  
2 to issue a Notice of Questioned Costs under 1630 and  
3 start an official process.

4 That gives the program the opportunity to  
5 provide us with any additional argument and evidence  
6 that they may have found since the OIG left. There's  
7 specific time frames for that. They have that  
8 opportunity to appeal.

9 They'll review those documents, those  
10 arguments, issue then what we call a Final Management  
11 Decision, and then based on the amount of questioned  
12 costs -- because oftentimes we lower the amount of  
13 questioned costs because the program is able to come up  
14 with documentation that suffices -- but depending on  
15 the amount that's questioned, the program then has an  
16 opportunity under 1630 to appeal of the President. And  
17 then, from there, the President's office would then  
18 make the final decision.

19 MR. HOFFMAN: And this may be naivete on my  
20 part, but why isn't that process of figuring out  
21 whether the questioned costs are real or whether the  
22 grantee has a good explanation -- why isn't that part

1 of the IG audit process itself?

2 I would think that by the end of the audit,  
3 especially after you've issued your preliminary  
4 findings and then management of the grantee has a  
5 chance to respond, that the IG's Office would be able  
6 to come to some very clear answers about whether the  
7 questioned costs are actually problematic or whether  
8 the grantee management's response is adequate. So it  
9 sounds like there's two -- it sounds duplicative to me.

10 MR. MERRYMAN: The management presents their  
11 information addressing the recommendations, questioned  
12 costs, and we take a look at it. And if they provide  
13 additional information, we take a look at that. If we  
14 need to modify the questioned cost amount, if we think  
15 there's sufficient information to modify it, we'll  
16 modify the questioned cost amount before we refer it  
17 over.

18 But then we issue the report final at that  
19 point in time, and making the referral to LSC  
20 Management to go through and consider it for a  
21 questioned cost proceeding.

22 MR. HOFFMAN: Okay. And Lora, let me ask you

1 in terms of timing. So from the time that the IG's  
2 Office issues its report and refers over to you some  
3 questioned costs, and let's say it's a situation where  
4 once you look into it, you are actually going to think  
5 there's some merit to it and you're going to issue a  
6 Notice of Questioned Costs. About how long does that  
7 take?

8 MS. RATH: That's going to vary from referral  
9 to referral. I could go back and figure out some of  
10 the time frames for you. Some of them can be very  
11 quick, depending on the exhibits that were there and  
12 that it was so obvious and that's the questioned cost  
13 and we're going to go forward and I can get somebody to  
14 draft a Notice of Questioned Costs fairly quickly.

15 You have to realize that these are coming in  
16 at all different times, not of the day and the night  
17 but all different times during the year. And we have  
18 various workloads, and depending on staff that are in  
19 the office who are able to do that, it may get put off  
20 a little while.

21 MR. HOFFMAN: Right.

22 MS. RATH: But typically, I would say within a

1 few months as the outside limit.

2 MR. HOFFMAN: Then management -- the grantee  
3 management, of course -- gets a chance to then respond  
4 again and say, no, these costs are valid, or so on?

5 MS. RATH: Right.

6 MR. HOFFMAN: Then you have to presumably  
7 investigate that further, and then you come to this  
8 final Management decision. And then, as you say, they  
9 can appeal it to the President?

10 MS. RATH: Right. But once we issue that  
11 first notice, then regulatory time frames come into  
12 play, and then it's a very quick process after that.  
13 They have 30 days to respond. We have 30 days after  
14 that. And then I think they have another 15 or 30 to  
15 complete --

16 MR. HOFFMAN: And is this process that you're  
17 describing all pursuant to regulation?

18 MS. RATH: Yes. Yes, it's 45 CFR Part 1630.  
19 It's the Notice of Questioned --

20 MR. HOFFMAN: Okay. So two other questions on  
21 this process. You said earlier that one of the first  
22 things you would do is to try to talk with the IG's

1 Office and try to see their exhibits. I heard you say  
2 the word "try." And just to clarify, is that  
3 problematic ever, to get information from the IG's  
4 Office, or is that --

5 MS. RATH: No, no, no. Under the current  
6 Management, things work very smoothly.

7 MR. HOFFMAN: Okay. That was my impression.  
8 I just wanted to confirm.

9 MS. RATH: Of course, getting schedules for  
10 it, but them saying no --

11 MR. HOFFMAN: Yes. Catch me in the office.

12 MS. RATH: Yes. Yes. It's a scheduling  
13 issue, not --

14 MR. HOFFMAN: So in terms of the efficiency of  
15 our receiving information and getting briefed, one of  
16 the things I'm thinking about that I think, although  
17 would really defer to the two of you about how to do  
18 this, would be some sort of a chart that keeps track of  
19 IG audit, things in an IG audit that were referred to  
20 the OCE.

21 It sounds like it's going to be rarely a  
22 finding where the grantee management did not actually

1 implement the finding, but more often will be  
2 questioned costs; where OCE is in its process of that,  
3 or if there was a final resolution, either nope, we  
4 disagreed and there were no questioned costs imposed,  
5 or we lowered them and imposed the following questioned  
6 costs -- I think a chart like that, if it doesn't  
7 exist, I would ask you to consider crating it jointly  
8 with the IG's Office.

9 I could see that being a very efficient way  
10 for us to not only get briefed on what you and the IG's  
11 Office are doing in this area, but also on the critical  
12 point of if -- let's say that what we find is that over  
13 the last couple years, if the IG's questioned costs  
14 have totaled \$2 million across the spectrum and at the  
15 end of the day Management has only found that it was  
16 \$100,000 of questioned costs, I think we would want to  
17 ask, do we have a process that's working?

18 Now, you still may say, no, that's a good  
19 process. That works. But if Management is only  
20 finding and assessing costs for 5 or 10 percent of what  
21 the IG found, I think that would be good to know.

22 I haven't heard that fact or that type of

1 analysis yet in our briefings, and I'm mindful of not  
2 asking anyone to spend too much time on things. But I  
3 think, going forward, either on this, on the IPA  
4 audits, on investigations to the extent that things can  
5 be revealed -- something that shows an end result,  
6 especially as it relates to when LSC Management gets  
7 involved in the followup to an IG, I think that's  
8 important.

9           By the way, I think that we're running out of  
10 time here. But the other side of this is when OCE does  
11 program reviews, I'm interested in knowing whether  
12 there's something that's being sent to the IG's Office  
13 either for the IG to follow up or to decide -- not to  
14 direct, obviously, but for the IG to consider whether  
15 to follow up -- or whether those things together are  
16 helping to form, as I said earlier, this kind of a risk  
17 matrix with regard to grantees.

18           But let me just go back to the first one.  
19 With regard to this idea of questioned costs and other  
20 followup work coming out of IG audits, is that  
21 something that you all, either jointly or on your own  
22 as OCE, keep track of in chart form or some other form?



1           MS. RATH: Yes. Yes, and we get together and  
2 we update our charts and share the information  
3 periodically, either by phone or definitely during our  
4 monthly meeting.

5           MR. MERRYMAN: Right. The other thing, too,  
6 as far as questioned cost is concerned, the results of  
7 questioned cost proceedings are included in the  
8 Semiannual showing what has been upheld by Management,  
9 a dollar amount, what has not been, what has been  
10 allowed by Management, disallowed by Management, what  
11 was claimed, what was sent over by IG.

12           So every six months the ones that have closed  
13 out during that period, at least the dollar value, is  
14 there.

15           MR. HOFFMAN: So this sounds good because I'm  
16 always reluctant to ask. You all are very busy and  
17 everyone's doing a good job, so I'm reluctant to ask  
18 for things that would create work.

19           But it sounds like you have an existing chart  
20 that would go sort of audit by audit and then would  
21 show what followup work was done, and if there was, and  
22 what questioned costs were suggested by the IG and then

1 what questioned costs were found by Management.

2           If you have that chart and you could provide  
3 it to our Committee, I think that would be useful. I  
4 know it would be useful for me in terms of thinking  
5 about what questions to ask and whether I feel the need  
6 to spend any time on this or we could say, let's move  
7 on to the next one.

8           As long as the chart includes that  
9 information, including the amount of IG questioned  
10 costs and where Management wound up, I think that would  
11 be useful. Is that something that you have and could  
12 provide to us?

13           MR. SCHANZ: David, this is Jeff. We do that  
14 as a statutory requirement for federal inspectors  
15 general. And it's included in every Semiannual Report  
16 to Congress. The chart is there. We provide the  
17 Semiannual to the Committee and to Management and to  
18 the Congress based on the legislation that has created  
19 the federal inspectors general. So that --

20           MR. HOFFMAN: Okay. I'm looking at your -- I  
21 have it in front of me. I know it's publicly  
22 available. Is this the table -- do you have the report

1 in front of you, Jeff?

2 MR. SCHANZ: No, I do not.

3 MR. HOFFMAN: Okay. So I see that you have a  
4 Table 2 on page 27 which is one page, and it says,  
5 "Audit Reports Issued with Questioned Costs for Period  
6 Ending March 31, 2013." And then you categorize them.

7 For instance, A is for which no Management  
8 decision has been made by the commencement of the  
9 reporting period. Let's see. And then we've got  
10 questioned costs that were agreed to by Management,  
11 \$3,000; questioned cost recommendations that were not  
12 agreed to by Management, \$99,000.

13 So when I saw that, frankly, this was one of  
14 the things that I thought, oh, I have some questions  
15 about this because if I'm reading it right, I've got  
16 \$103,000 of questioned costs, about 3 percent LSC  
17 Management agreed with and 97 percent they didn't.

18 Which is why I would like to get a chart that  
19 would be -- especially if it exists already -- that's  
20 more specific than this and that allows us to look at  
21 the details of, okay, here's audit report No. 1.

22 Here's what the IG found as questioned costs. Here's

1 what Management found.

2 I'd like to take a look at that maybe over the  
3 last couple years, again, especially if that's easy to  
4 do. Is that something that you guys could provide to  
5 us?

6 MR. MERRYMAN: It will take a little time over  
7 a couple of years.

8 MR. HOFFMAN: Well, no. That's why I'm  
9 pivoting off of what Lora said. Does that --

10 MS. RATH: Well, I have -- I'm sorry. I have  
11 a chart, a spreadsheet that I keep of all the audits  
12 that the OIG sends down to me, the date it was  
13 referred, the date of the report, just a quick comment  
14 about what the basis of the questioned costs was, the  
15 amount, and then the dates, so I can keep track of  
16 what's going on with the questioned costs.

17 It's not very complicated and it's only since  
18 I became the acting director in June of 2011, I  
19 think -- which is almost, okay, two years. So I can  
20 work with Dutch and see what other information needs to  
21 get in there.

22 MR. HOFFMAN: Yes. Your chart, Lora, sounds

1 exactly what I'm thinking about. And again, I'm really  
2 reluctant to ask you all to spend time on this kind of  
3 additional reporting type of information. So it may be  
4 that what you have, and just keeping it simple, is more  
5 than sufficient, and if any of us look at it and think,  
6 oh, you know what would be great, if you could add this  
7 in the future, we could let you know.

8           So please don't spend a lot of time on it,  
9 especially since you've got something already that  
10 sounds like it really fits with what I'm describing.  
11 But whatever it is, even if it's just a work in  
12 progress, I would ask you to provide that to us.

13           MS. RATH: And can I make one point, going  
14 back to something you said about looking at the SAR and  
15 seeing that there was \$103,000 questioned and that  
16 Management only agreed to 3,000?

17           If you go and read 1630, that gives Management  
18 broader discretion in looking at what information and  
19 documentation suffices for our purposes. So that's  
20 often what happens. Those were primarily the TIG  
21 audits in there, and we get to use reasonableness and  
22 equity and that other kind of good stuff in looking at

1 the evidence that the program is able to provide to us.

2           So that's often why there's a major difference  
3 between what the OIG sent to us and what we actually  
4 agreed to and questioned because they have stricter  
5 standards. I just wanted to put that out there. It's  
6 not necessarily that --

7           MR. HOFFMAN: Yes. My instinct is that we've  
8 got two very, very smart, competent, strong offices  
9 here. And if the facts are that over the last year or  
10 two, when the IG has found questioned costs, the vast  
11 majority of those have not been sustained by  
12 Management, it at least prompts me to ask some followup  
13 questions.

14           This discussion today was really what feels to  
15 me like the first step of just -- I just want to make  
16 sure I understand your process and get some facts so we  
17 can figure out what additional questions to ask.

18           So if the answer, as you say, is different  
19 standards, I might want to ask, why do we have  
20 different standards? But I don't know yet. So my  
21 sense is that the chart would be the next best step.

22           I know that we're just over the 12:00 hour on

1 the East Coast, so I will wrap it up. And I apologize,  
2 Vic and the Committee members, for monopolizing the  
3 questioning here.

4 I think, just for Lora and Jeff, you can hear  
5 my thought process and what would be helpful. And I  
6 think the same thought process should be applied to the  
7 other types of oversight that OCE and the IG's Office  
8 do. There are the IPA audits. There are the OCE  
9 program reviews. There is this regulatory  
10 vulnerability assessment program.

11 So if, anticipating where we're going to be  
12 going with this in the future, you can anticipate that  
13 by considering whether that you also have charts and  
14 spreadsheets that track this relevant kind of  
15 information that we're looking for on those areas as  
16 well, I think that would be great.

17 Otherwise, we'll just continue to, I think,  
18 cycle through this as part of going through the risk  
19 matrix on these Grantee Oversight and Grantee  
20 Operations categories, is my thought about this.

21 MR. SCHANZ: Okay. Thank you, David. This is  
22 Jeff. I would like to say that it's not different

1 standards. I used the term at the last board meeting  
2 of "after acquired information."

3 As you know as a former IG, the audit is at a  
4 point in time, and that's what we found onsite. We  
5 write the reports based on the facts we found onsite  
6 and report them to Congress, to the Board, and publicly  
7 available.

8 Then OCE is the funding source, and LSC  
9 Management is the funding source, to make the final  
10 determination as to whether there was information that  
11 was after-acquired or missed during the audit, heaven  
12 forbid.

13 But those issues do come up, and that's why  
14 there will never be a direct correlation between  
15 Management's upholding of a questioned cost and the  
16 IG's presentation of the questioned costs in the first  
17 instance, because that's what the Management had.

18 OCE, to their credit, follows up and keeps  
19 their foot on the throat of the grantee until the  
20 documentation is provided to resolve the  
21 recommendations.

22 MR. MERRYMAN: The other thing, David, I'll



1 let you know, you wonder about those changes need to be  
2 made in the way the IG views questioned costs, is we do  
3 look at the results. And if there's policy issues and  
4 it's a policy decision that's been made, then unless we  
5 have some strong objections that we talk to Management  
6 about or work it, then we do implement the policy in  
7 future audits in initiating questioned costs.

8 MR. HOFFMAN: Well, I appreciate both those  
9 comments. I appreciate both those comments.

10 CHAIRMAN MADDOX: Okay. Well, thank you,  
11 David. That was very help.

12 MR. SNYDER: Yes. Very helpful.

13 CHAIRMAN MADDOX: And everybody on the panel  
14 and there in Washington who was providing input is very  
15 thoughtful.

16 I would just ask the Committee members in the  
17 next few days or early next week if you have other  
18 thoughts about how we can follow up on this discussion  
19 at our meeting in Denver or other issues that you'd  
20 like to have addressed, there's still time for us to  
21 work on the agenda.

22 I know that Jim Sandman and his team will be

1 providing us with some followup information on the risk  
2 matrix. But if there are other particular issues or  
3 followup questions that come to mind, by all means let  
4 me know and we'll see if we can address those with a  
5 properly prepared panel.

6 MR. HOFFMAN: Vic, it's David. The very quick  
7 comment I would make is on these big risk areas of  
8 Grantee Oversight and Grantee Operations, my instinct  
9 would be just to continue the thread of this last  
10 conversation and to ask Lora and the IG's Office or  
11 whoever, Management and the IG's Office, want to be  
12 there to have this spreadsheet or chart presented to  
13 us. And then we can ask followup questions about that.

14 But I would, of course -- we can discuss that  
15 between now and the next meeting, or you could decide,  
16 depending on how that fits in with the agenda. But I  
17 do think we have some decisions to make about how to  
18 efficiently talk and get educated each meeting about  
19 this Grantee Oversight topic.

20 CHAIRMAN MADDIX: Right. I agree.

21 If there are any other comments? If there are  
22 not any other comments from the Committee members, I'll

1 move to item No. 5, which is public comment. Is there  
2 any comment from members of the public?

3 (No response.)

4 CHAIRMAN MADDOX: Hearing none, I'll move to  
5 item 6, to consider and act on other business. Is  
6 there any other business?

7 (No response.)

8 CHAIRMAN MADDOX: If not, I'll move to item 7,  
9 a motion to adjourn. Is there a motion?

10 M O T I O N

11 PROFESSOR VALENCIA-WEBER: This is Gloria. I  
12 move to adjourn.

13 CHAIRMAN MADDOX: Thank you, Gloria. Second?

14 MR. HOFFMAN: This is David. Second.

15 CHAIRMAN MADDOX: Thank you, David. All in  
16 favor?

17 (A chorus of ayes.)

18 CHAIRMAN MADDOX: Hearing no objection, the  
19 motion is agreed to and the meeting is adjourned.  
20 Thank you all very much. See you in Denver.

21 MR. SNYDER: Have a great 4th, everyone.

22 (At 12:00 p.m., the Committee was adjourned.)